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CBA

SMALL BUSINESS STUDY

An Analysis

of the September

1992 Survey

CBA

1993 Small Business Banking Study

An Analysis of the September Survey

by

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Consumer Bankers Association

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 750 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

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Introduction

The third annual CBA survey of small business banking focuses on organizational structure, delivery systems, profitability, products and services, and community reinvestment. It was refined to include questions on underwriting and community outreach programs.

Objectives

This study will:

1. Measure small business in terms of size of gross annual receipts and size of loan.
2. Examine products and services offered to small business customers.
3. Evaluate fee structures for small business services.
4. Examine organizational responsibility for the small business market.
5. Discuss areas responsible for sales and service of small business banking services.
6. Examine incentive compensation for both small business underwriting and sales staff.
7. Examine marketing strategies.
8. Evaluate lending authority for small business loans.
9. Evaluate Small Business Administration participation.
10. Assess small business banking activity growth in 1991 and projected growth in 1992.
11. Discuss the operations and profitability of small business banking activities.
12. Examine Small Business Community Reinvestment Act activities.
13. Examine training of small business banking staff.
14. Examine organizational responsibility for underwriting functions.
15. Measure the source of small business profits.

Methodology and Sample

The Consumer Bankers Association's Fourth Annual Small Business Banking Survey was sent out in November, 1992, to approximately 600 financial institutions. There were 64 usable responses prior to the deadline. The data collected represents business as of September 30, 1992.

Of the 64 respondents 48 were commercial banks, 11 were holding companies, four were savings banks, and one was a savings & loan association. The holding companies represent an average of 6.8 banks.

Assets of the survey participants totaled $1,070 billion. Loan outstandings totaled $525 billion. Of those institutions, forty-five broke out their small business banking loans separately, totaling $19.1 billion. For comparison, 88 institutions responded to the September 30, 1991, survey, with total assets of $1,065 billion. Loan outstandings totaled $577 billion. Of those, 60 institutions broke out their small business loans separately, totaling $40.4 billion.

Total small business loans comprised 32.8 percent of total outstanding business loans at 36 reporting institutions. This was similar to findings in the 1992 survey.

The average asset size of the responding institutions was $16.7 billion for 64 replies. The average size of the responding institutions in the 1991 survey was $12.5 billion. Industry consolidation appears to be the main factor in the smaller respondent base, along with a decline in survey response. In its analysis, CBA has compared the response from 1991 and 1992, although caution is advised in comparing these numbers due to differences in the response base.

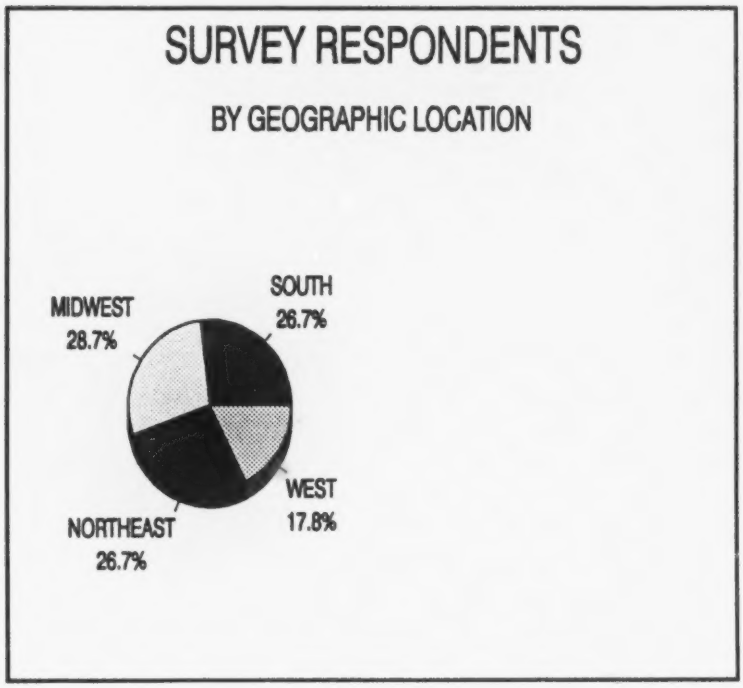
Small vs. Large

In terms of asset size, the two categories used in the breakdown are small banks (less than $5 billion) and large banks (over $5 billion). In that range there were 34 small banks and 30 large banks. Similarly in 1991, respondents were evenly divided into the two same size groups. This suggests that those who did not respond to the 1992 survey, due to consolidation or other reasons, were not concentrated in one size group.

In terms of overall bank profitability, survey respondents' average Return on Assets (ROA) was 1.0. Of commercial banks and holding companies alone, the average ROA was 1.1.

Geographically, the responses were broken down into four Census Bureau regions:

Northeast (CT, ME, MA, NJ, NH, PA, RI, VT,)
South (AL, AR, DE, FL, GA, KY, LA, MD, NC, SC, TN, TX, VA, DC, WV)
Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI)
West (AK, AR, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY)



29 percent are financial institutions in the Midwest

27 percent are financial institutions in the South

27 percent are financial institutions in the Northeast

18 percent are financial institutions in the West

Structurally, 47 percent of the respondents reported they were multi-state lenders, ranging from doing business in 2 to 12 states, with the average number of states being 4. The average number of branches was 216, compared to 145 in the 1992 survey, another indication of consolidation. The median number of branches was 85.

Organizational Structure and Delivery Systems

After three years of a steady increase in the percentage of institutions which place the responsibility for the small business market in the **retail division**, the percentage remained stable this year. In this year's study, when asked "which division/department has ultimate responsibility for the small business market?", 50 percent of the respondents named the retail division, compared to 49 percent the previous year.

The percentage of institutions that selected the **commercial division** as having responsibility for the small business market declined this year to 41 percent, from 49 percent last year. This eight percent decline was offset by an seven percent increase in the percentage of institutions that selected the "other" category. Sixteen percent of the respondents said they placed the responsibility for the small business market in areas other than the retail or commercial division, compare to nine percent in last year's survey. More than one response was permitted.

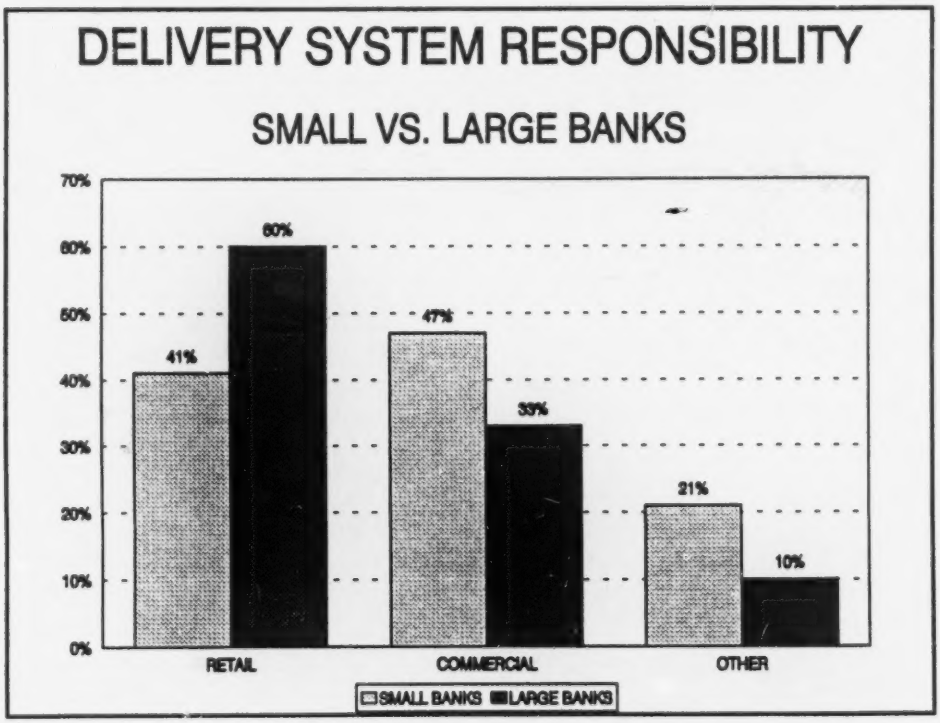
Among the "Other" replies listed were: Corporate Product Manager, Dedicated Small Business Unit, Total Bank Personnel, Both Retail and Commercial depending on the size of the company's annual sales, Community Banking, Consumer & Small Business Administration and Credit Policy, Business Development, Corporate and Community Bank Division, Business Banking Group, Branches for relationship and Business Lending for credit control.

Small vs. Large

Again this year, there is a clear correlation between the size of the institution and the likelihood that small business is housed in the retail division.

Just as in past surveys, more small banks (less than $5 billion in assets) placed the organizational responsibility for small business banking in the commercial division (47 percent), than in the retail division (41 percent). Twenty-one percent of small banks selected the "other" category.

In large banks (greater than $5 billion in assets) the trend is again reversed. Sixty percent named the retail division as responsible for small business, and only 33 percent named the commercial division as being responsible. Only ten percent of large banks chose other, half the percentage of small banks.



Retail vs. Commercial Approach

The division/department in which responsibility for small business banking is placed affects certain operational and delivery system issues. Banks with small business banking in the retail division were analyzed separately from those putting small business in the commercial lending division, and where significant differences occurred, they are noted. Perhaps most fundamentally, banks putting small business in the retail division are more deposit driven, while banks putting authority in the commercial driven are more credit driven. Retail division banks estimated they derived 49 percent of their profits from deposits, while commercial division banks estimated they derived 72 percent of their profits from credits (see "Profitability," page 20)

Other significant differences occur in the areas of Incentive Compensation, Lending Authority, Loan Approval and Expansion Plans.

Definitions of Small Business

The primary measures of small business banking are gross annual receipts and loan size, and many banks use a combination of these and other measures to delineate the market.

94 percent of the respondents defined small business by gross annual receipts.
77 percent of the respondents defined small business by size of loan.

Among those definitions not in either category were: Defined by number of checks, rather than deposit size, deposits over $1,000, Average balance $75,000, Family Owned-single location, Who the decision maker is-owner vs. controller, Both gross annual receipts and loan size, Relationship not to exceed $3 million, average number of employees 50.

The 77 percent of the respondents that define small business by size of loan represents a decrease from 91 percent in last year's study.

When defining small business by gross annual receipts, 64 percent defined small business as $0-5MM in sales. An additional 14 percent chose the $0-1 million range and another 15 percent defined small business as $0-10 million in sales. Seven percent chose the $0-15 million range.

When loan size is used to define small business, 32 percent had a loan cap of $1 million, and 28 percent defined small business loans as $250,000 or less. Twenty-six percent had a small business loan cap of $500,000 and 11 percent defined small business loans as $100,000 or less. Two percent said the $0-5 million range and two percent said more than $5 million.

Small Banks

When broken out by asset size, 94 percent of small banks define small business by gross annual receipts, and 81 percent define small business by size of loan, a seven percent decrease from last year's study. Institutions could choose both gross annual receipts and size of loan, indicating that many small banks use more than one factor in their definition.

When small banks define small business by gross annual receipts the most common definition is $0-5MM in sales (58 percent). Last year 66 percent of the small banks that responded used this definition. Other definitions include $0-10MM in sales, selected by 23 percent of the small banks, $0-1MM (13 percent) and $0-15MM (7 percent). The $1-10MM range saw a 11 percent increase over last year's study. No small bank chose either $0-35MM or $0-100MM as a definition of small business.

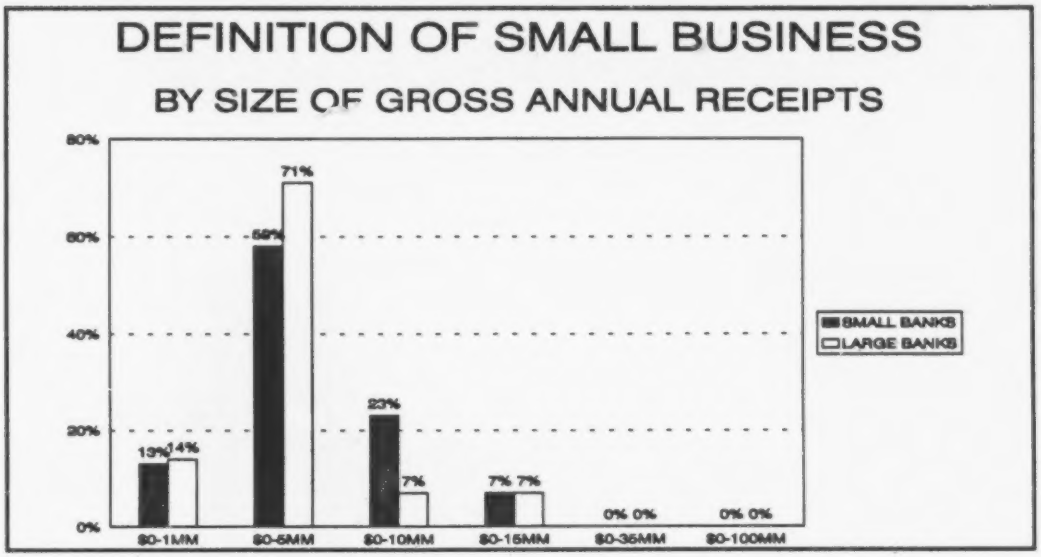
Of those defining small business by size of loan, 35 percent chose the $0-500,000 range, a 14 percent decrease from the previous year. Twenty-seven percent selected the $0-250,000 range, nineteen percent selected $0-1MM, 12 percent selected $0-100,000 and four percent chose $0-5MM. Another four percent said they have a maximum small business loan definition exceeding $5 million.

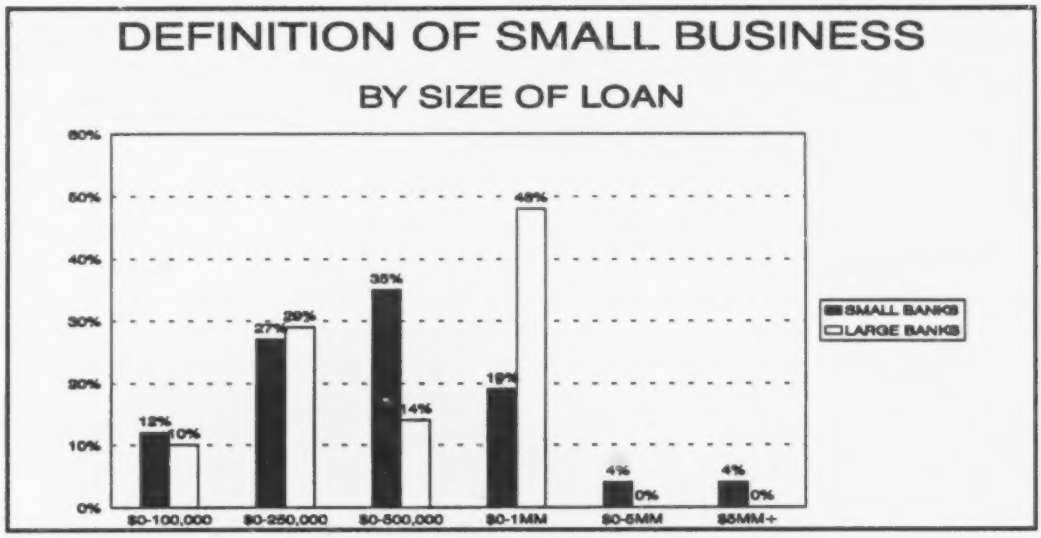
Large Banks

Of the large banks 94 percent define small business by gross annual receipts and 72 percent defined it by size of loan. The percentage of banks defining small business by size of loan is a significant drop from the previous year when 96 percent of large banks reported they define small business by size of loan.

The $0-5MM range in gross annual receipts was the most common definition with 71 percent of the respondents, an increase from 47 percent last year. The increase in this category occurred mostly at the expense of the $0-10MM range, which declined from 31 percent last year to seven percent. Fourteen percent chose the $0-1MM range, and seven percent chose the $0-15MM range. No respondent chose either the $0-35MM or the $0-100MM range.

Of those defining small business by size of loan, 48 percent chose the $0-1MM range. Twenty-nine percent selected the $0-250,000 range, fourteen percent selected the $0-500,000 range, and ten percent chose $0-100,000. No respondents chose either $0-5MM or over $5 million.





Plans To Expand Small Business Banking

All 64 respondents said they had plans to expand their small business activities in 1993. Seventy-four percent reported they plan to increase SBA lending, 69 percent plan to offer more products/service for small business, 68 percent plan to increase advertising and promotion, 39 percent plan to increase sales staff devoted to small business, 39 percent plan to increase lending to the low- to moderate-income target market, 37 percent plan to re-structure delivery systems to focus on small business, and 32 percent plan to increase underwriting staff devoted to small business.

In addition, 18 percent selected "Other" and specified they had plans to increase volume without adding staff, modify approval/policy exemption process, create a task force to address small business market opportunities, increase marketing and product development staff, focus and increase calling activity, provide more education and information to small business community via seminars, establish branch expertise in small business relationship management, increase training of staff to target small business, and increase industry specialization.

Eighty-three percent of the responding institutions said they expanded their small business banking in 1992. Of those that expanded their activities last year 56 percent reported they offered more products/services for small business, 54 percent increased advertising and promotion, 52 increased sales staff devoted to small business, 54 percent increased SBA lending, 40 percent re-structured delivery systems to focus on small business, 37 percent increased underwriting staff devoted to small business, and 27 percent increased lending to the low- to moderate-income target market.

Eight percent chose "Other." Other replies included: reorganized with specific business action plan, initiated aggressive calling effort, appointed lenders with commercial experience to work small business community, and reassigned accounts.

Over the four year period in which CBA has conducted its small business banking survey, the number of institutions planning to increase their small business banking activities has gone from 91 percent in 1990, 79 percent in 1991, 91 percent in 1992, and 100 percent in 1993.

This year the gap between those institutions that in 1991 said they planned to expand their small business banking activities in 1992 and those that actually did narrowed significantly. In the 1991 study 79 percent reported they had plans to expand their small business activities. The following year only 64 percent said they actually did expand. In the 1992 study 91 percent said they had plans to increase small business banking activities in the coming year. This year study indicates that 83 percent of respondents actually did expand their activities, narrowing the gap between plans to expand and actually expanding small business activities.

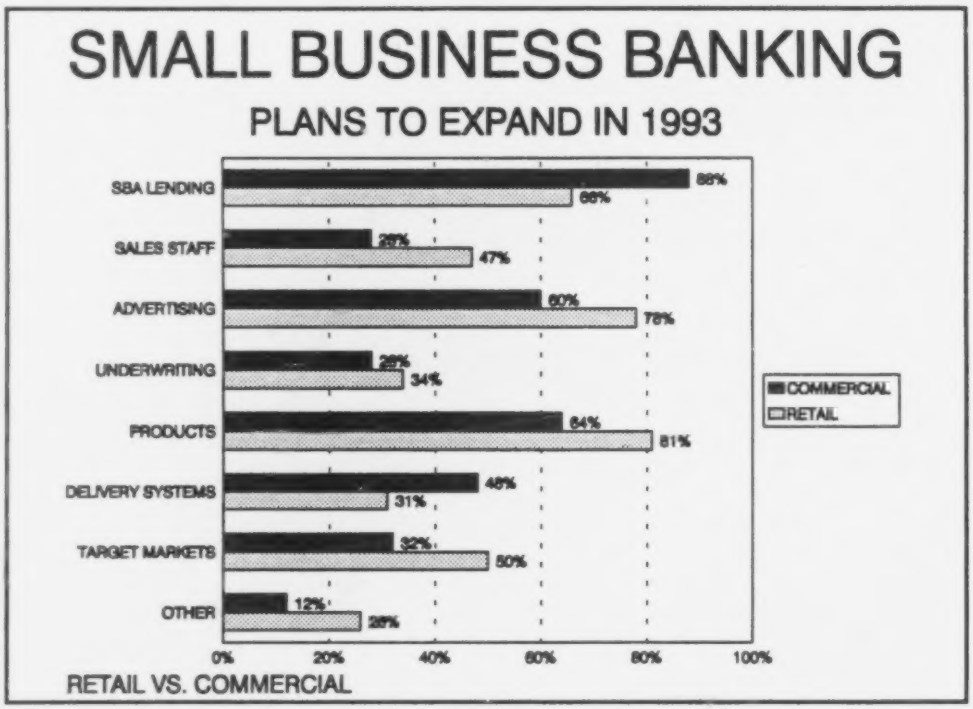
Retail vs. Commercial

Although every respondent has plans to expand small business banking in 1993, he methods they plan to use differ depending on retail or commercial orientation.

Retail:
81 percent plan to offer more products/services for small business
78 percent plan to increase advertising and promotion
66 percent plan to increase SBA lending
47 percent plan to increase sales staff devoted to small business
50 percent plan to increase lending to low to moderate income target markets

34 percent plan increase underwriting staff devoted to small business
31 percent plan to re-structure delivery systems to focus on small business
26 percent "Other"

Commercial:
88 plan to increase SBA lending
64 percent plan to offer more products/services for small business
60 percent plan to increase advertising and promotion
48 percent plan to re-structure delivery systems to focus on small business
32 percent plan to increase lending to low and moderate income target markets
28 percent plan to increase underwriting staff devoted to small business
28 percent plan to increase sales staff devoted to small business
12 percent "Other"



Sales and Services Offered To Small Business

Forty-seven banking products and services are listed, grouped into three categories: Deposits/Investments, Loan/Credit, and Business Services. Bold categories and corresponding percentages indicate a percentage change of five or more from the 1992 study.

DEPOSITS/INVESTMENTS

1993	1992
98% CDs	99%
97% Checking account--fees established through analysis	95%
95% Money market account	98%
92% IRA, Keogh, SEPP	**87%**
75% Lawyer escrow account	**62%**
70% Securities sales/purchase	67%
69% Sweep account	**62%**
69% Mutual funds	**54%**
63% Checking account--flat fee	60%
41% Institution's commercial paper	41%

LOANS/CREDIT

100% Letters of credit	98%
98% Real estate loan	97%
98% Equipment loan	98%
98% Working capital loan	100%
97% Business revolving credit	**92%**
94% Commercial mortgage	97%
92% SBA loan	90%
91% Credit card, individual	**86%**
86% Business credit card	**77%**
66% Asset based lending	**61%**
61% Tailored loan	**55%**
56% Commercial home equity loan	**39%**
52% Overdraft protection	**39%**
50% Fed availability for check clearance	**45%**
48% Debit card	44%
48% Bankers acceptance	51%

BUSINESS SERVICES

94% Direct payroll deposit	**86%**
95% Safe deposit box	94%
94% Merchant card services	91%
88% Cash management	91%
88% Payroll accounts	**80%**
86% Lock box	88%
86% Trust services	84%

1993	1992
77% 401K plans	**69%**
75% International services	74%
73% Private banking	71%
73% Telephone banking/ATM banking	73%
64% Employee stock option plan (ESOP)	**56%**
63% Seminars	**51%**
59% Investment management	**43%**
38% Insurance	**23%**
33% Newsletters	**25%**
28% Home video banking/on-line PC banking	**23%**
28% Tax planning/filing	**18%**
13% Tax preparation	**6%**
9% Property management	10%
2% Accounting/auditing services	2%

Twenty-three products or services saw a significant percentage increase from the 1992 study data. Not a single product or service saw a significant decrease from the previous year. This is even more significant when you consider that 10 products or services had significant percentage decreases in last year's study.

The most dramatic increases from the previous study were in Commercial Home Equity Loans, Investment Management and Insurance services, Lawyer Escrow Account, and Mutual Funds, all of which increased over 10 percent form the previous year's data.

Service Fees

Deposits/Investments

Fifty percent of bankers charged fees for deposits and investments based on earnings credits to offset fees. Service fees accounted for 38 percent of the respondents that answered the question and eight percent used a fee based on a relationship price. Also, three percent reported that they charged no fee.

Loans/Credits

For loans and credit services, the majority, 68 percent, used a relationship price. Second was service fees, chosen by 29 percent of respondents. Earnings credit to offset fees was selected by only three percent, and no respondents indicated they did not charge a fee.

Business Services

For business services, 71 percent utilized a service fee. Fifteen percent used a relationship price and 12 percent reported they used earnings to offset fees. Three percent indicated they charged no fee.

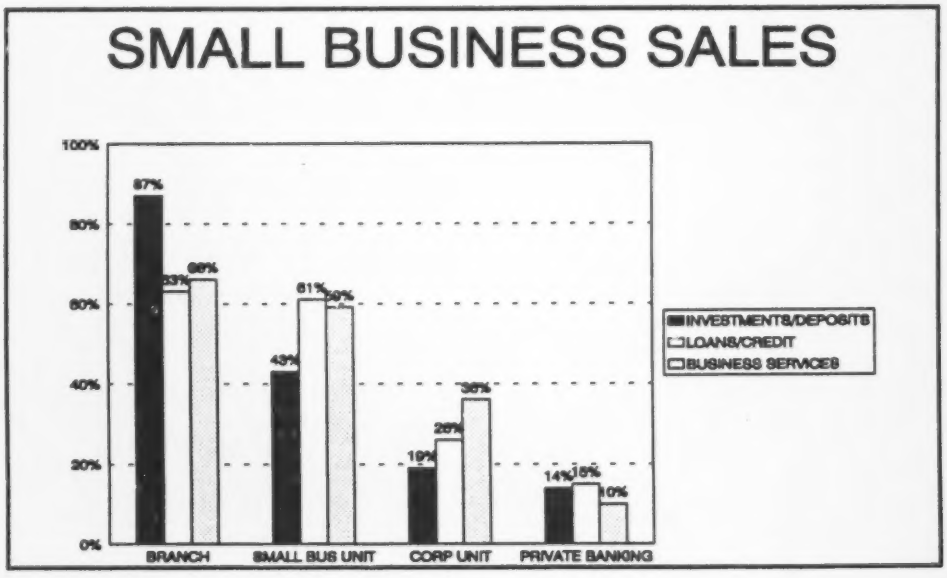
Sales and Service Responsibility

The survey also attempts to distinguish small business sales and service responsibility. The three categories used are: deposits/investments, loans/credit and business services.

Sales

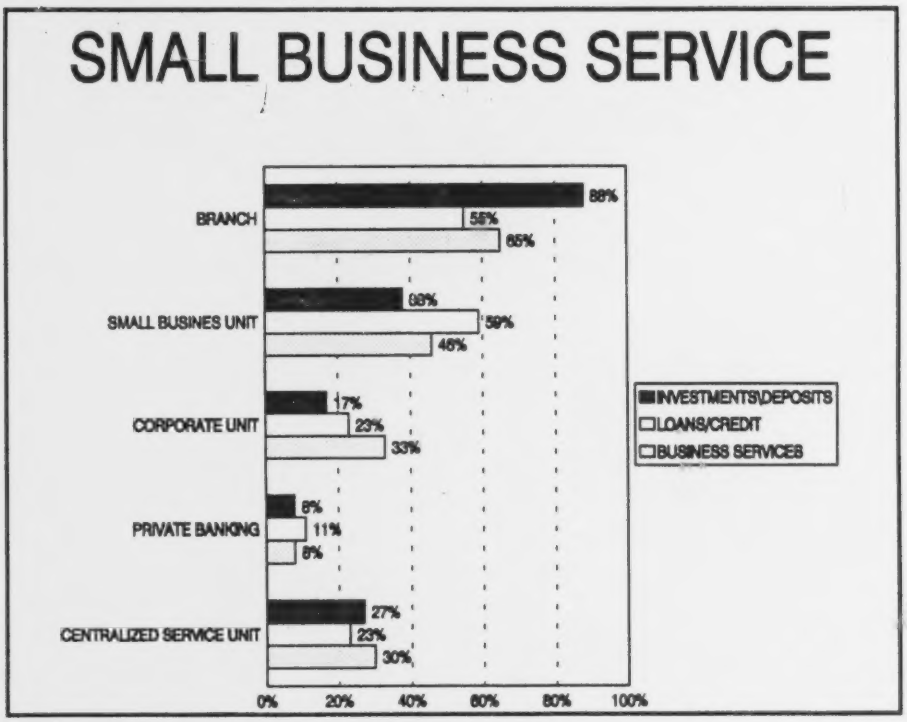
Eighty-seven percent of respondents said the branch system has responsibility for deposit/investment sales. The branch is also responsible for sales of business services 66 percent of the time. Sixty-three percent said the branch is responsible for sales of loans/credit.

However, in all three categories the dedicated small business unit was selected as the second most common area responsible for sales. For loans/credit, 61 percent selected the dedicated small business unit. Fifty-nine percent selected the dedicated small business unit for sales of business services. Forth-three percent said the dedicated small business unit was responsible for sales of deposits/investments. More than one answer was accepted.



Service

Respondents identified the branch system as having responsibility for service in deposits/investments (88 percent), business services (65 percent) and loan/credit (55 percent). Interestingly, the dedicated small business unit was the most popular selection for servicing responsibility for loans/credit, selected by 59 percent. The dedicated small business unit was selected by 46 percent in the business service category and only 38 percent in the deposits/investments category.



Underwriting

Seventy-one percent of the respondents identified the branch as having responsibility for the underwriting of deposits/investments, but the area most often selected for the underwriting of loans/credit and business services was the dedicated small business unit. Sixty-one percent of the respondents said the responsibility for underwriting loans/credit was the dedicated small business unit and 44 percent place the responsibility for underwriting business services in the dedicated small business unit.

Underwriting-deposits/investments

71% branch

35% dedicated small business unit

24% centralized service unit
19% corporate unit
9% private banking
More than one answer accepted.

Underwriting-loans/credit
61% dedicated small business unit
36% branch
24% corporate unit
21% centralized service unit
11% private banking
More than one answer accepted.

Underwriting-business services
44% dedicated small business unit
42% branch
39% corporate unit
32% centralized service unit
5% private banking
More than one answer accepted.

Retail vs. Commercial

Underwriting and sales functions are separated in 60 percent of responding retail division institutions, compared to 39 percent of those institutions where small business is part of the commercial division.

Incentive Compensation

Fifty percent of the respondents reported they separate underwriting and sales functions. Forty-seven percent said they offer incentive compensation for sales staff, compared to 41 percent a year earlier.

Of those offering incentive compensation for sales staff, 69 percent said it was based on volume of new business in small business services, 52 percent said it was based on asset balances grown, 45 percent based it on service fees, and 14 percent the incentive compensation on volume of sales calls. Three percent based incentive compensation on third-party references.

Where underwriting is separate, only eight percent said they offer compensation for underwriting staff. This percentage of institutions offering incentive compensation for underwriting staff is a decrease from 12 percent in the 1992 study. This decrease is the second consecutive in the number of institutions offering incentive compensation for underwriting staff.

Of the four institutions that said they offer incentive compensation for underwriting staff, three said it was based on credit quality and one said it was based on the overall profitability of the unit.

The percentage of incentive pay to annual compensation that is offered for sales staff ranged from two to 40 percent with the average percentage of annual compensation that is incentive pay being 11.2 percent, based on 20 responses received.

Only three respondents reported the percentage of incentive pay to annual compensation for the underwriting staff, which ranged from 13 to 23 percent with the average being 18.7 percent. Because of the low number of responses, such a finding cannot be considered representative.

Large vs. Small

Fifty percent of large banks offer incentive compensation for small business sales staff and four percent offer incentive compensation for the underwriting staff.

In small banks, only 44 percent offer incentive compensation for small business sales staff, while 13 percent offer incentive compensation for their underwriting staff.

Retail vs. Commercial

There are significant differences in incentive compensation. In the retail division, 63 percent of the respondents offer incentive compensation for sales staff, compared to only 31 percent of those in the commercial division.

Of just those banks offering incentives, compensation based on "volume of new business in small business services" was the most common, with 68 percent of retail banks offering and 63 percent of commercial division banks. The second most common incentive system was based on "asset balances grown", listed by 63 percent of those retail divisions with incentive compensation, and 38 percent of commercial divisions. Incentives based on volume of sales calls were used by 25 percent of the commercial units with incentive compensation and only 11 percent of retail operations.

Much less common is incentive compensation for underwriting staff. Thirteen percent of commercial units and seven percent of retail units offered it.

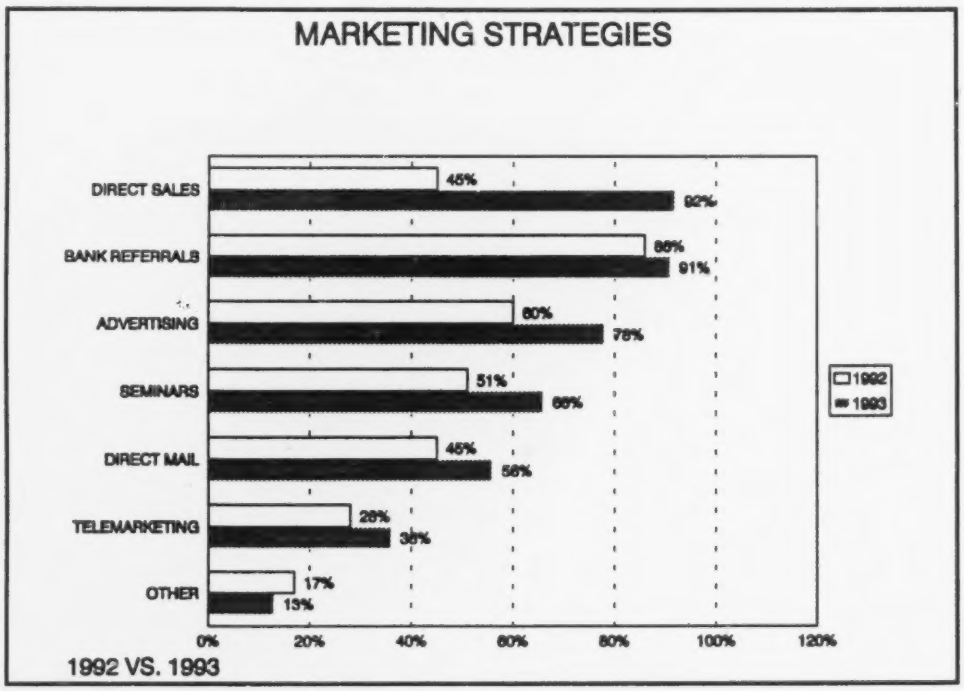
Marketing Strategies

Virtually every aspect of marketing showed a significant increase from the previous year. As of Sept. 30, 1992, respondents engaged in the following marketing activities:

92 percent use direct sales force
91 percent use bank referrals

78 percent use advertising
66 percent use seminars
56 percent use direct mail
36 percent use telemarketing

13 percent said "Other" and listed, Sales Blitz, Joint calling program with branch managers, Officer call program, Directors & Customer Referrals, Community Functions, Internal Cross-sell award program, several depending upon region/branch, billboards, business bench ads.



Database Marketing

The use of databases for small business marketing grew substantially over the past year. To target new prospects, 64 percent of the respondents said they have developed a data base for small business marketing, up from 51 percent the previous year. Forty-two percent reported they have an in-house data base, compared to 31 percent the previous year.

Thirty-three percent of the respondents have a Dun & Bradstreet data base and six percent said they had other forms of data bases. "Other" replies include: Oxford, Harte-Hanks/Trinet, Combined D& B w/in-house, and Optimizer.

Large vs. Small

Of the large banks, 67 reported they have a small business banking data base. Forty-seven percent of large banks said they use an in house data base and 33 percent indicated they use a Dun & Bradstreet data base.

Of the small banks, 62 percent reported they have developed a data base for small business banking, a 29 percent increase from the previous year's data. Thirty-six percent of small banks said they used an in-house database and 30 percent use a Dun & Bradstreet.

Lending Authority and Review

Lending authority for small business loans is handled by the following (more than one answer accepted):

58 percent small business banking specialist
44 percent branch manager/assistant manager
42 percent commercial lending specialist
38 percent dual signature requirement
36 percent regional branch manager/regional district manager
31 percent "Other"

Other replies: Loan Committee, Small Business Service Center Leader, SVP-Funds Acquisition Officer, Credit Administration, Senior Loan Officer, Officer Credit Committee, Centralized Unit, Lending officer, Small Business Underwriters, Group EVPs, Chief Credit Officer, Unit Manager, Committees to legal lending limit, Loan Committee, Dedicated Bus Unit Head or Retail Delivery Group Head, Sr. Loan Committee, Credit Admin., division manager, Senior Officers.

Asked to identify maximum lending authority for each of these specialists, respondents ranged in answer from $15,000 to $10 million. Due to this extremely broad range, a more accurate depiction of lending authority limits can be obtained by using medians:

The ***branch manager/assistant branch manager*** had a median loan limit of $50,000 and an average loan limit of $149, 000 for 24 replies.
The ***regional branch manager/regional district manager*** had a median loan limit of $250,000 and an average loan limit of $747, 000 for 19 replies.
The ***small business banking specialist*** had a median loan limit of $250,000 and an average loan limit of $376, 000 for 30 replies.
The ***commercial lending specialist*** had a median loan limit of $300,000 and an average loan limit of $456, 000 for 14 replies.
A ***dual signature requirement*** had a median loan limit of $500,000 and an average loan limit of $729, 000 for 14 replies.
Other, named above, had a median loan limit of $1,000,000 and an average loan limit of $1,691,000 for 11 replies.

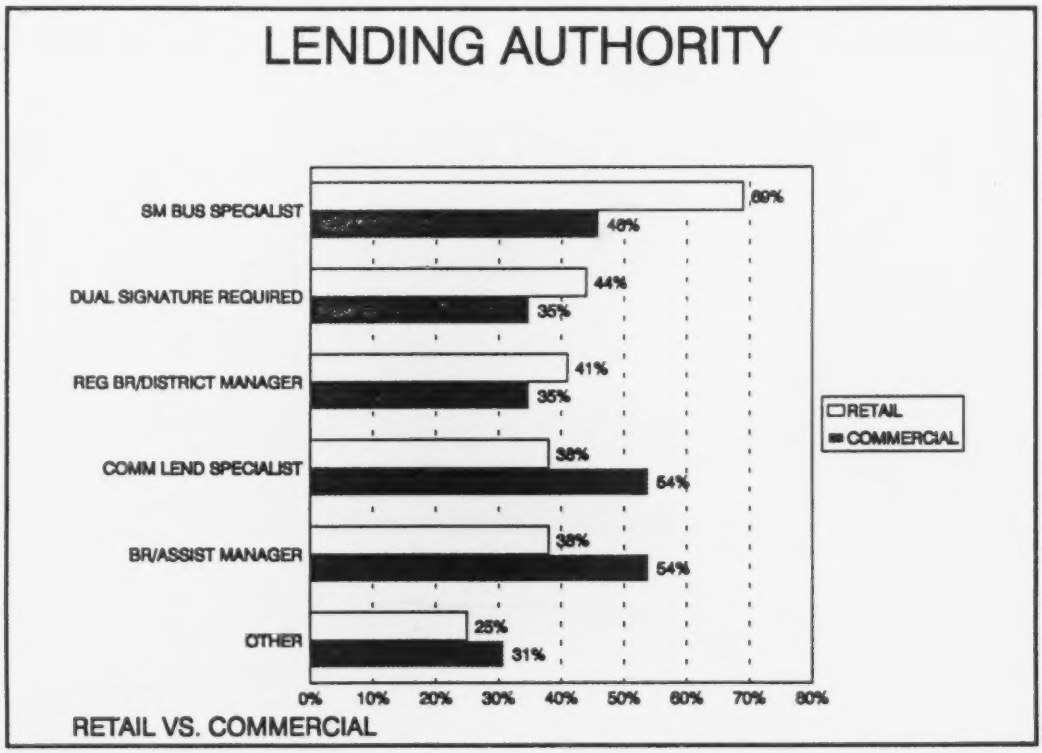
Loan committee review of small business loans is managed the same as commercial for 62 percent of the respondents. Only 21 percent use a specialized small business committee for loan review. Another 25 percent selected "Other", which included tiered lending authority and no committee review at all.

Among the "Other" replies: Delegated Authority, Committee review not utilized, Senior Credit Officer up to $1 million, Within lending authority, Tier Lending Authority, Small Business Underwriter, No loan committees exist for approval, Individual approval.

Retail vs. Commercial

Sixty-nine percent of retail divisions place small business lending authority in a small business banking specialist, compared to 46 percent for commercial divisions.

Interestingly, banks placing small business operations in the commercial division placed lending authority in the branch manager or assistant branch manager just as often as with the commercial lending specialist. Both were selected by fifty-four percent of the respondents. More than one answer was accepted.



Retail divisions are more likely than commercial divisions to use a specialized small business committee for loan approval (29 percent versus eight percent).

Sixty-nine percent of commercial divisions handle small business loans the same as commercial loans, compared to 55 percent for retail divisions.

Small Business Administration

Eighty-seven percent of respondents participate in Small Business Administration loan programs, with the average of their portfolios in SBA loans being 6.5 percent. Of those that are SBA lenders, 54 percent have qualified for Certified Lender Status, and 33 percent have qualified for Preferred Lender Status. Thirty percent indicated that they have no status with the SBA.

Seventy-three percent of the respondents said they participate in other government guaranteed or sponsored programs, and identified the following:

Virginia Small Business Lending Authority, SBA 504 Program, Kentucky Development Finance Authority, NYS Energy Investment Loan Program, Michigan Capital Access Program, SBA/LDC 504 Programs, City of Phoenix, Arizona multi-bank, Various city, county and state sponsored initiatives, State guarantee & direct loan programs, 504 Program, Louisiana's Link Deposit Program. HUD, Farmers Home Administration, Numerous City Guaranteed Lending Programs. LA Econ. Dev., SBIC, FMHA, Enterprise Zones, Rural and Comm. Develop, BIDCO, FMHA, State & Local programs, FAME, FMHA, New York Bus Development Council. LIDA, PIDA, PEDFA, Thrift Fund. DC of Office of Business & Economic Development, Business Consortium, Programs through a Community Development Corp., FMHA, various state and city organizations, FMHA, FHLB, EXIMBANK, Various federal and provincial lending programs, Farmer's Home Administration, Project PPEP Inc., WHEDA, Milw Economic Develop Corp., Virginia Asset Financial Corp., State of Hawaii program/other Federal programs, Pay Area Development, Business Consortium, etc., Arizona Multi-Bank, Bank Consortium, Local government programs, PIDA, PMBDA, SBA 504 loan program, State of Hawaii Capital Loan Program.

Loan Operations

Asked to identify loan operations support for small business banking, 67 percent of the respondents said they book small business loans on the commercial system, 17 percent book these loans on the installment loan system, and 31 percent use both commercial and installment loan systems. Eleven percent reported they use the real estate loan system and 2 percent use a separate system dedicated to small business loans.

Nine percent selected the "other" category and named the retail system, dealer finance system, integrated systems and the revolving credit system.

CIF

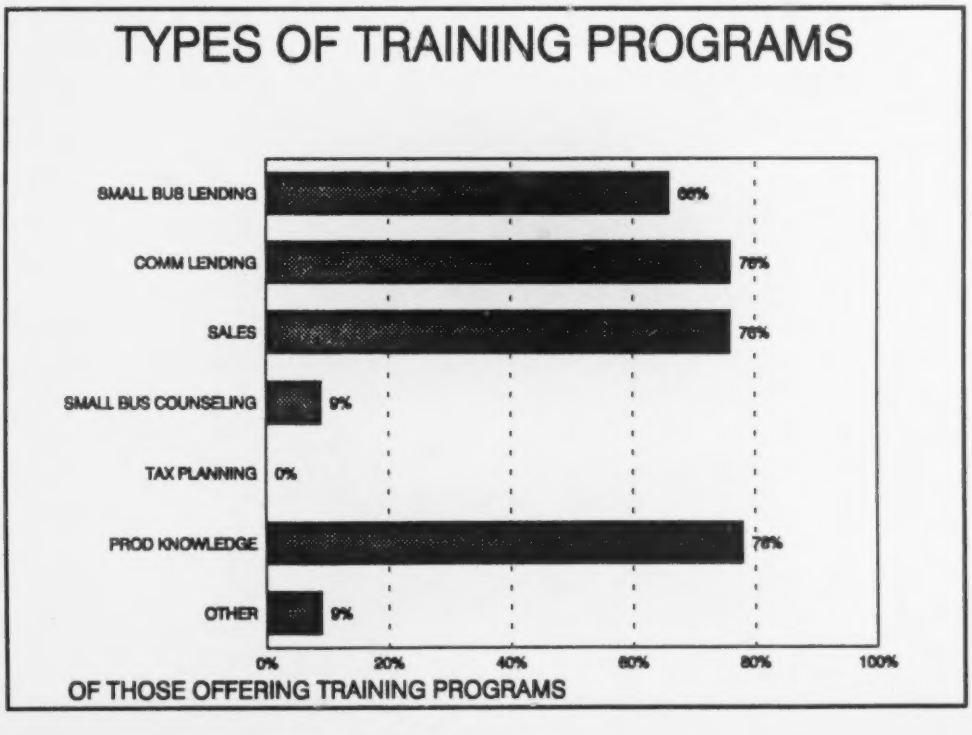
Eighty-three percent of the respondents have a customer information file (CIF) for small business customers, up from 73 percent a year earlier. Of that group, 78 percent include personal banking relationships as well as commercial loan relationships.

Training Programs

Ninety-one percent offer training programs for small business staff. Of those, they offer the following types:

78 percent offer product knowledge
76 percent offer commercial lending
76 percent offer sales training
66 percent offer small business lending
9 percent offer small business counseling
0 percent offer tax planning training
9 percent chose "Other" and listed, commercial continuing education programs, "Certified Lender" programs, training banks on sales and product issues, understanding tax returns, financial state analysis, lending to professional and contractors, bank trade group seminars.

Eighty-seven percent of the respondents reported they have in-house training programs taught by bank staff. In-house programs taught by consultants increased by 16 percent from last year's study to 52 percent. Another 52 percent reported they used outside training programs, a 12 percent increase from the 1992 study.



Credit Scoring

Thirteen percent of the respondents use credit scoring for small business purposes. When credit scoring is used, the average limit is $301,000, although the range was from $50,000 to $1,000,000, based on a very small respondent base.

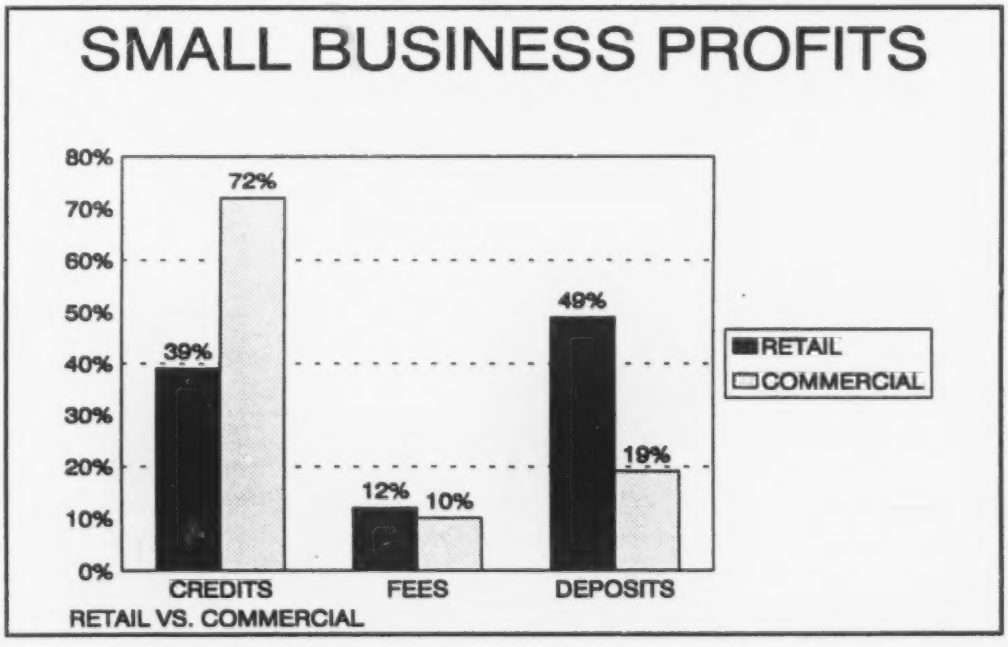
Profits

Survey respondents were asked to estimate the relative percentage of small business banking profits that come from credits, deposits and fees. On average for 29 respondents to this question, the largest portion of profits came from credits, at 50.7 percent, followed by deposits at 38.4 percent. Fees bring in only 10.9 percent of small business banking profits, according to the respondents. (This question was not asked in the previous survey).

Retail vs. Commercial

The profitability of credits, deposits and fees varied substantially depending on whether small business banking was part of the retail or the commercial division. Retail banks said on average 39 percent of their small business banking profits came from credits, compared to 72 percent for commercial divisions. In contrast, retail divisions said deposits are responsible for 49.3 percent of profits, compared to 19 percent at the commercial divisions.

At retail divisions fees produced an estimated average 11.6 percent of profits, compared to 9.5 percent at commercial divisions. Profit data was provided by 18 institutions for retail division small business and 11 institutions in the commercial division.

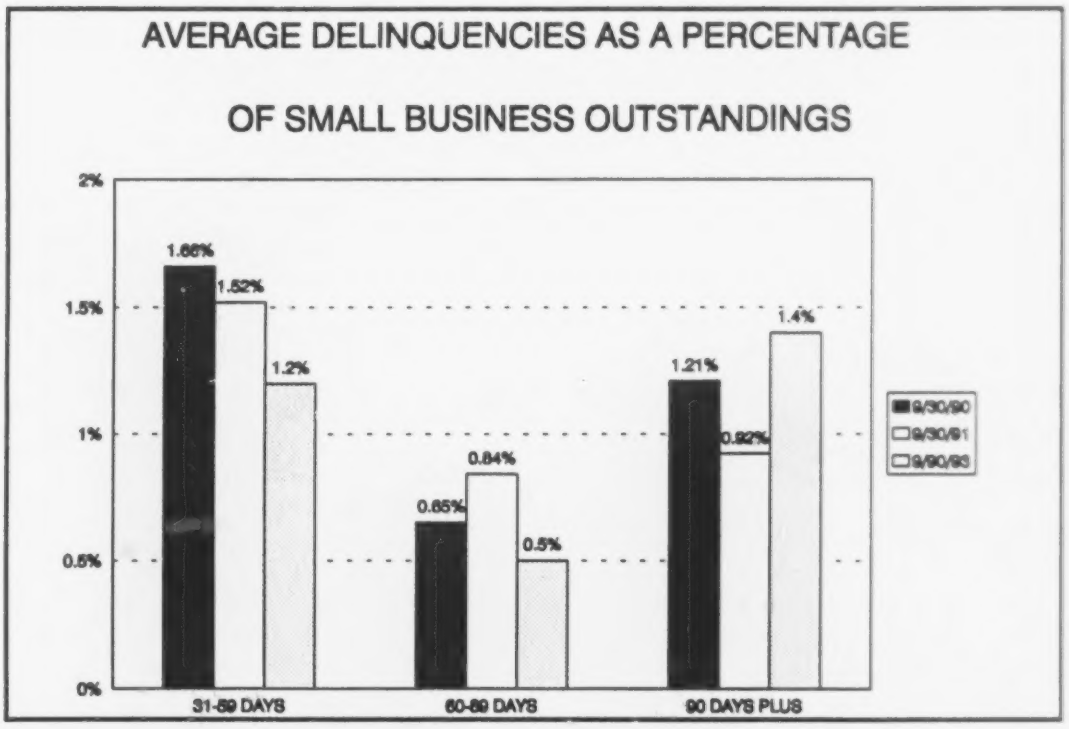


Delinquencies and Losses

The general three-year trend in delinquencies is downward, although gross and net losses are up.

The average delinquency rate for small business outstandings (based on 24 responses) was 1.2 percent for accounts 31-59 days past due, compared to 1.52 percent last year, and 1.66 percent in 1991. For accounts 60-89 days the average delinquency rate was 0.5 percent, compared to 0.84 last year, and 0.65 in 1991. The average delinquency rate for accounts 90 days past due was 1.4 percent, compared to .92 percent in 1992, and 1.21 percent in 1992.

The average total dollar amount 31-59 days past due for the respondents was $4,059,000. For 60-89 days past due the average dollar amount was $2,644,000. The average dollar amount 90 days past due was $3,333,000.



When asked whether they attempted to renegotiate delinquent small business loans that would otherwise be charged off, 95 percent of the respondents said they did. Eighty-three percent reported they had a workout unit in place.

The average total number of charge-offs as of Sept. 30, 1992, for the survey respondents was 46, and the average total percent of accounts charged-off was 1.8 percent.

The average gross loss as a percentage of outstandings as of Sept. 30, 1992, was 0.9, up from 0.81 percent last year, and 0.54 percent in 1991. The average net loss as a percentage of outstandings was 0.6 percent, up from 0.4 percent the year before and 0.37 percent in 1990.

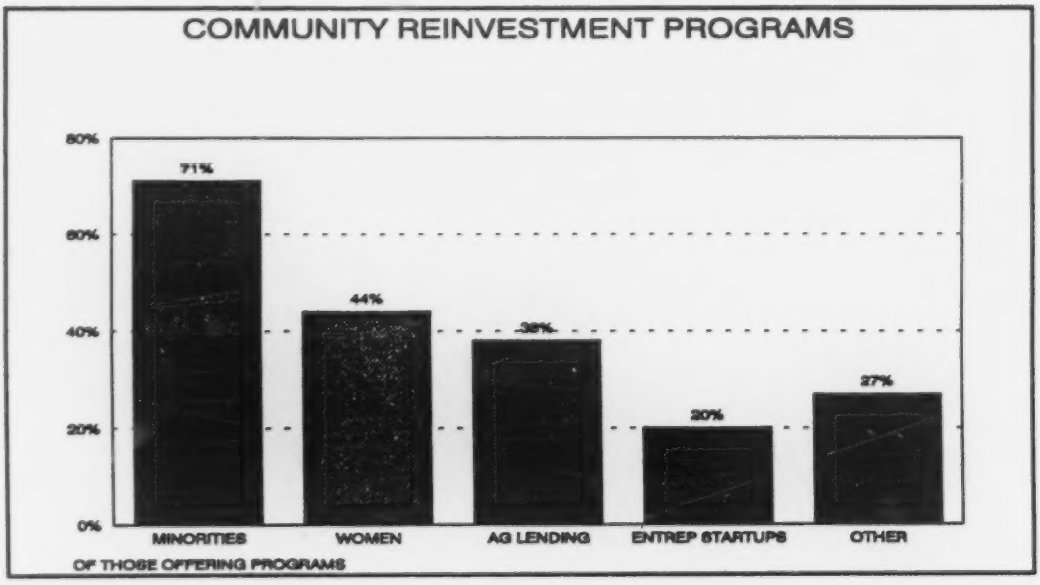
Community Reinvestment

Seventy percent of the respondents sponsor small business loan programs targeting special groups.

Specifically, of those 70 percent:

71 percent sponsor loan programs targeting small businesses owned by minorities
44 percent target small businesses owned by women
38 percent target agriculture lending
20 percent target entrepreneurial startups

Twenty-seven percent chose "other". Among the "other" replies were: First Time Home Buyers, various NJMFA Programs, residential loans, PBA Programs, SBA, targeted census tracts, hospital patient financing, micro loan programs for minority and women owned businesses, SEDD residential, enterprise zones, community based and minority and women contractors, residential lending/affordable housing, specific geographic areas, micro loan programs.



Fifty-five percent of the respondents said they have a special marketing plan focusing on Community Reinvestment, and 48 percent said they have a designated staff for CRA activities.

Ninety-four percent of the survey respondents reported they are documenting small business activities for CRA purposes.

Sixty-five percent are geocoding small business loans for CRA purposes.

Again this year, 21 percent of the respondents said they have established a specific dollar target for CRA loans to small businesses.

Only nine percent of the respondents said they separate CRA loans in a special portfolio.

Sixty-six percent said they have established programs aimed at community outreach or the education of small business owners, and another 14 percent said they plan to next year.

APPENDIX
BASED ON 64 RESPONDENTS

Section One: General Information

	Mean As of 9/30/91	9/30/92
1. Your institution's asset size:	$13.4B	$16.7B
2. Your institution's total small business loans:	$415MM	$425MM
3. Your institution's total loan outstandings:	$5.9B	$9.1B
4. Your institution's total small business deposits (checking):	$596MM	$892MM
5. Your institution's total small business deposits (all other):	$221MM	$815MM

6. Are you primarily a:

76.6% Commercial Bank
18.8% Bank holding company
0% Finance company
1.6% Savings & loan association
6.3% Savings Bank
0% Credit Union
0% Other (*Please specify*):_____

7. What region best describes your location?

27.4% Northeast (CT, ME, MA, NJ, NY, NH, PA, RI, VT)
27.4% South (AL, AR, DE, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, DC, WV)
29% Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI)
17.7% West (AK, AR, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY)

8. Your institution's return on average assets (ROA) as of 9/30/92?

1.0%

9. Number of branches:

216 Mean
85 Median

10. If a holding company, number of banks represented by assets size above:

    6.8 Mean

11. Are you a multi-state lender?
    46.9% Yes
    53.1% No

    If Yes, in how many states? 3.6 Mean; 2 to 12 Range

Section Two: Definitions

1. For banking purposes, your organization defines "small business" as:

(*Check as many as apply*)

93.7% By size of gross annual receipts (*Use the closest definition to your own*):

13.6%	$0 - 1MM
64.4%	$0 - 5MM
15.3%	$0 - 10MM
6.8%	$0 - 15MM
0%	$0 - 35MM
0%	$0 - 100MM

77% By size of a loan (*Use the closest definition to your own*):

10.6%	$0 - 100,000
27.7%	$0 - 250,000
25.5%	$0 - 500,000
31.9%	$0 - 1MM
2.1%	$0 - 5MM
2.1%	More than $5MM

[] Deposits (*Please specify*): *Defined by number of checks, rather than deposit size; Avg. balance $75,000*

[] Other (*Please specify*) : *Family owned-single location; Who is the decision maker is-owner vs. controller; Both gross annual receipts and loan size; Relationship not to exceed $3 million; Avg. number of employees 50*

Section Three: Sales and Service

1. Please check all of the services offered by your institution to small business.

DEPOSITS/INVESTMENTS

- 98.4% Certificates
- 95.3% Money Market account
- 40.6% Institution's commercial paper
- 62.5% Checking account--flat fee
- 96.9% Checking account--fees established through analysis of balances and activity
- 68.8% Sweep account
- 92.2% IRA, Keogh, SEPP
- 75% Lawyer Escrow Account
- 70.3% Securities sales/purchase
- 68.8% Mutual funds

LOANS/CREDIT

- 51.6% Overdraft protection
- 98.4% Real estate loan
- 98.4% Equipment loan
- 98.4% Working capital loan
- 93.8% Commercial mortgage
- 56.3% Commercial home equity loan
- 100% Letters of credit
- 48.4% Bankers acceptances
- 65.6% Asset based lending
- 50% Fed availability for check clearance
- 96.9% Business revolving credit
- 60.9% Tailored loan
- 92.2% SBA loan
- 90.6% Credit card, individual
- 85.9% Business credit card
- 48.4% Debit card

BUSINESS SERVICES

- 59.4% Investment management
- 9.4% Property management
- 93.8% Merchant card services
- 28.1% Tax planning/filing
- 95.3% Safe deposit box
- 37.5% Insurance
- 85.9% Trust services
- 73.4% Private banking
- 85.9% Lock box
- 87.5% Payroll accounts
- 64.1% Employee stock option plan (ESOP)
- 76.6% 401 (K) Plans
- 1.6% Accounting/Auditing services
- 12.5% Tax preparation

32.8% Newsletters
28.1% Home video banking/on-line PC banking
62.5% Seminars
93.8% Direct payroll deposit
73.4% Telephone banking/ATM banking
87.5% Cash management
75% International services

2. In general, what type of fee structure does your institution use for the following categories of small business services?

(*Check only one fee category for each group of services. Select the fee used most frequently.*)
(*Note: Relationship price includes both bundled products and discounts.*)

	Service fee	Relationship price	No Fee	Earnings credit to offset fees
Deposits/Investments	38.3%	8.3%	3.3%	50%
Loans/Credit	28.6%	68.3%	0%	3.2%
Business Services	70.5%	14.8%	3.3%	11.5%

3. Identify where primary responsibility lies for small business.

A. Which is responsible for direct sales? (*Check one or more*)

	Branch	Dedicated Small business unit	Corporate unit	Private banking
Deposits/ Investments	87%	43%	19%	14%
Loans/ Credit	63%	61%	26%	15%
Business Services	66%	59%	36%	10%

B. Which is responsible for service? (*Check one or more*)

	Branch	Dedicated Small business unit	Corporate unit	Private banking	Centralized service unit
Deposits/ Investments	88%	38%	17%	9%	27%
Loans/ Credit	55%	59%	23%	11%	23%
Business Services	65%	46%	33%	8%	30%

C. Which is responsible for underwriting? (*Check one or more*)

	Branch	Dedicated Small business unit	Corporate unit	Private banking	Centralized service unit
Deposits/ Investments	71%	35%	19%	9%	24%
Loans/ Credit	36%	61%	24%	11%	21%
Business Services	42%	44%	39%	5%	32%

4. Which division/department has ultimate organizational responsibility for the small business market?

50% Retail
41% Commercial
16% Other (*Please specify*): *Corporate Product Manager; Dedicated Small Business Unit; Total Bank Personnel; Community Banking-Consumer & Small Business; Administrative & Credit Policy; Business Development; Corporate & Community Bank Division; Business Banking Group; Branches for relationship, Business Lending for credit control*

5. Marketing strategies that you use for sourcing new small business customers:
(*Check as many as apply*)

56% Direct mail
36% Telemarketing
66% Seminars
78% Advertising
92% Direct sales force
91% Bank referrals
13% Other (*please specify*): *Sales Blitz; Joint calling program with branch managers; Officer call program; Directors & Customer Referrals; Community Functions; Internal Cross-sell award program; Billboards; Business bench ads*

6. Have you developed a data base for small business marketing?

64% Yes

42% If Yes, is it in-house

33% Dun & Bradstreet

6% Other (*please specify*) *Oxford; Harte-Hanks/Trinet; Optimizer; Combined Dun & Bradstreet w/in-house*

36% No

7. Do you separate underwriting and sales functions?

50% Yes

50% No

8. Do you offer incentive compensation for small business sales staff?
(Please complete even if you do not have separate sales and underwriting staff.)

47% Yes, and it is ...(*Check as many as apply*)
14% Based on volume of sales calls
69% Based on volume of new business in small business services
3% Based on third-party references
45% Based on service fees
52% Based on asset balances grown

53% No incentive compensation is offered.

9. If underwriting is separate, do you offer incentive compensation for small business underwriting staff?

8% Yes, and it is ...(Check as many as apply)
- 25% Based on profitability of unit
- 75% Based on credit quality
- 50% Other: Discretionary; Administrative goals etc.

92% No incentive compensation is offered.

10. If incentive compensation is offered, what percentage of annual compensation is incentive pay?

For Sales Staff	11.2%
For Underwriting Staff	18.7%

11. Lending Authority for small business loans resides with: *(Check as many as apply)*

	Loan Limit (maximum)
44% Branch manager/assistant branch manager	$50,000 Median; $149,000 Avg
36% Regional branch manager/regional district man.	$250,000 Median; $747,000 Avg
58% Small business banking specialist	$250,000 Median; $376,000 Avg
42% Commercial lending specialist	$300,000 Median; $456,000 Avg
38% Dual signature requirement	$500,000 Median; $729,000 Avg
31% Other *(Please specify)* :	$1,000,000 Median; $1,691,000 Avg

"OTHER" replies: *Loan Committee, Small Business Service Center Leader, SVP-Funds Acquisition Officer, Credit Administration, Senior Loan Officer, Officer Credit Committee, Centralized Unit, Lending officer, Small Business Underwriters, Group EVPs, Chief Credit Officer, Unit Manager, Committees to legal lending limit, Loan Committee, Dedicated Bus Unit Head or Retail Delivery Group Head, Sr. Loan Committee, Credit Admin., division manager, Senior Officers.*

12. Loan committee review of small business loans is managed:

62% Same as commercial loans
21% With a specialized small business committee
25% Other *(Please specify)*: *Delegated Authority, Committee review not utilized, Senior Credit Officer up to $1 million, Within lending authority, Tier Lending Authority, Small Business Underwriter, No loan committees exist for approval, Individual approval.*

13. Do you participate with the Small Business Administration (SBA)?

87% Yes 6.5% Average of portfolio
13% No

If yes, which status do you have with SBA?
33% Preferred Lender status
54% Certified Lender status
30% No status with SBA

14. Do you participate in any other government guaranteed or sponsored small business programs?

73% Yes (*Please specify*): *Virginia Small Business Lending Authority, SBA 504 Program, Kentucky Development Finance Authority, NYS Energy Investment Loan Program, Michigan Capital Access Program, SBA/LDC 504 Programs, City of Phoenix, Arizona multi-bank, Various city, county and state sponsored initiatives, State guarantee & direct loan programs, 504 Program, Louisiana's Link Deposit Program. HUD, Farmers Home Administration, Numerous City Guaranteed Lending Programs. LA Econ. Dev., SBIC, FMHA, Enterprise Zones, Rural and Comm. Develop, BIDCO, FMHA, State & Local programs, FAME, FMHA, New York Bus Development Council. LIDA, PIDA, PEDFA, Thrift Fund. DC of Office of Business & Economic Development, Business Consortium, Programs through a Community Development Corp., FMHA, various state and city organizations, FMHA, FHLB, EXIMBANK, Various federal and provincial lending programs, Farmer's Home Administration, Project PPEP Inc., WHEDA, Milw Economic Develop Corp., Virginia Asset Financial Corp., State of Hawaii program/other Federal programs, Pay Area Development, Business Consortium, etc., Arizona Multi-Bank, Bank Consortium, Local government programs, PIDA, PMBDA, SBA 504 loan program, State of Hawaii Capital Loan Program.*

27% No

15. Do you have plans to expand your small business banking activities in 1993?

100% Yes, we plan to: *(Check as many as apply)*
- 39% Increase sales staff devoted to small business
- 68% Increase advertising and promotion
- 32% Increase underwriting staff devoted to small business
- 69% Offer more products/service for small businesses
- 37% Re-structure our delivery systems to focus on small business
- 74% Increase SBA lending
- 39% Lending to low to moderate income target market
- 18% Other *(Please specify) : Increase volume without adding staff, modify approval/policy exemption process, create a task force to address small business market opportunities, increase marketing and product development staff, focus and increase calling activity, provide more education and information to small business community via seminars, establish branch expertise in small business relationship management, increase training of staff to target small business, and increase industry specialization.*

0% No

16. Did you expand your small business banking activities in 1992?

83% Yes, we: *(Check as many as apply)*
- 52% Increased sales staff devoted to small business
- 54% Increased advertising and promotion
- 37% Increased underwriting staff devoted to small business
- 56% Offered more products/service for small businesses
- 40% Re-structured our delivery systems to focus on small business
- 54% Increase SBA lending
- 27% Lending to low to moderate income target market
- 8% Other *(Please specify): Reorganize with specific business action plan; Aggressive calling effort; Appointed lenders w/commercial experience to work with small business community; Direct activity and reassign accounts*

17% No

Section Four: Operations/Profitability

1. Small business loans are booked on the : *(Check as many as apply)*

67% Commercial loan system
17% Installment loan system
31% Both systems
11% Real estate loan system
2% Separate system for small business
9% Other *(Please specify)*: *Retail; Integrated system for all loans; DDA; Dealer Finance System; Equipment Finance; Revolving credit system*

2. Do you have a CIF (Customer Information File) for small business customers?

83% Yes
17% No

If yes, does your CIF include personal banking relationships as well as commercial banking relationships?

78% Yes
22% No

3. Do you offer training programs for your bank's small business staff?

91% Yes, we offer: *(Check as many as apply)*
- 66% Small business lending
- 76% Commercial lending
- 76% Sales training
- 78% Product knowledge
- 9% Small business counseling
- 0% Tax planning
- 9% Other *(Please specify)*: *Commercial continuing education program; "Certified Lender" program; Understanding Tax Returns; Financial statement analysis; Analyze tax returns; Bank trade group seminars*

9% No specialized training is offered

4. Sources for training: *(Check as many as apply)*

87% In-house programs taught by own bank staff
52% In-house program taught by consultants
52% Outside programs
6% No, we do not have any special training programs at this time

5. Do you use small business loan credit scoring?

13% Yes
If yes, up to what amount? $301,000 Avg
87% No

6. What percentage of your small business banking unit's profits come from:

Credits	50.7%
Fees	10.9%
Deposits	38.4%

7. As of 9/30/92, how many and what percentage of your small business loan accounts were past due/delinquent for the categories below?

Time Past Due	# of Accounts	% of Accounts
31-59 days	#62 Avg	1.4%
60-89 days	#20 Avg	0.6%
90 days plus	#36 Avg	1.1%

8. As of 9/30/92, what was the total amount and percentage of small business past dues for each category?

Time Past Due	Total $ Amount Past Due	% of Total Small Business Outstandings
31-59 days	$4.1MM Avg	1.2%
60-89 days	$2.6MM Avg	0.5%
90 days plus	$3.3MM Avg	1.4%

9. Does your bank attempt to renegotiate delinquent small business loans that would otherwise be charged off?

95% Yes
5% No

10. Do you have a workout unit in place?

83% Yes
17% No

11. What is the total number of small business charge-offs and the percent of accounts charged-off as of 9/30/92?

#46 Avg	1.8%

12. What was the total (gross) dollar volume loss, and what was the loss as a percentage of outstandings as of 9/30/92?

$4.5MM Avg 0.9%

13. What was the net dollar volume loss and what was the net loss as a percentage of outstandings as of 9/30/92?

$3.7MM Avg 0.6%

14. What are small business loans outstanding as a percentage of total loans to business?

32.8%

Section Five: Community Reinvestment

1. Does your institution sponsor any loan programs targeting a special group?

70% Yes, the program targets
- 71% Small businesses owned by minorities
- 44% Small businesses owned by women
- 20% Entrepreneurial Startups
- 38% Agriculture lending
- 27% Other *(Please specify): First Time Home Buyers, various NJMFA Programs, residential loans, PBA Programs, SBA, targeted census tracts, hospital patient financing, micro loan programs for minority and women owned businesses, SEDD residential, enterprise zones, community based and minority and women contractors, residential lending/affordable housing, specific geographic areas, micro loan programs.*

30% No

2. Do you have a special marketing plan focusing on CRA within the small business area?

55% Yes
45% No

3. Do you have a designated staff for CRA activities within the small business area?

48% Yes
52% No

4. Are you documenting small business activities for CRA purposes?

94% Yes
6% No

5. Are you geocoding small business loans for CRA purposes?

65% Yes
26% No
10% Plan to in next year

6. Have you established a specific dollar target for CRA loans to small businesses?

21% Yes
79% No

7. Do you separate CRA loans in a special portfolio?

9% Yes
91% No

8. Have you established any programs aimed at community outreach or the education of small business owners?

66% Yes
20% No
14% Plan to in the next year

Thank you for completing CBA's Small Business Banking Survey. We hope the information collected will provide valuable insights in this important business area. Results will be released at CBA's Small Business Banking Conference, January 27-29, at the Washington Vista Hotel in Washington, D.C. Each institution which completed the survey will receive a complimentary copy of the Executive Summary (mailed to the survey respondent).